

# PERAC AUDIT REPORT



## Northampton Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2014





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. MCCARTHY

September 13, 2016

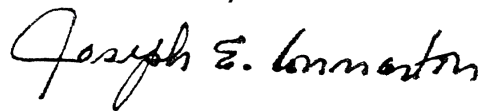
The Public Employee Retirement Administration Commission has completed an examination of the Northampton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Northampton Retirement Board for its exemplary operation.

In closing, I acknowledge the work of examiners Scott Henderson and Harry Chadwick who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





## STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
<b>Net Assets Available For Benefits:</b>			
Cash	\$3,691,412	\$703,685	\$2,670,705
Fixed Income Securities	28,795,518	30,353,805	31,048,907
Equities	77,356,713	67,826,475	52,751,246
Pooled Alternative Investment Funds	827,511	797,899	643,349
Hedge Funds	892,435	845,190	751,007
Interest Due and Accrued	184,662	199,655	217,486
Accounts Receivable	495,431	21,265	990,098
Accounts Payable	(42,940)	(37,639)	(2,122,703)
<b>Total</b>	<u>\$112,200,742</u>	<u>\$100,710,336</u>	<u>\$86,950,095</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$24,357,748	\$23,159,225	\$22,738,761
Annuity Reserve Fund	8,772,206	8,778,165	8,407,615
Pension Fund	333,735	245,807	159,508
Military Service Fund	3,665	3,661	3,658
Expense Fund	0	0	0
Pension Reserve Fund	<u>78,733,388</u>	<u>68,523,478</u>	<u>55,640,552</u>
<b>Total</b>	<u>\$112,200,742</u>	<u>\$100,710,336</u>	<u>\$86,950,095</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$22,081,495	\$8,117,208	\$145,752	\$6,768	\$0	\$49,484,836	\$79,836,059
Receipts	2,398,556	248,181	4,805,353	7	516,770	7,954,881	15,923,749
Interfund Transfers	(1,235,632)	1,220,627	1,817,287	(3,117)	0	(1,799,165)	0
Disbursements	(505,657)	(1,178,401)	(6,608,884)	0	(516,770)	0	(8,809,713)
Ending Balance (2012)	22,738,761	8,407,615	159,508	3,658	0	55,640,552	86,950,095
Receipts	2,542,067	255,638	5,089,243	4	555,437	14,882,207	23,324,596
Interfund Transfers	(1,376,510)	1,370,220	2,005,571	0	0	(1,999,282)	0
Disbursements	(745,093)	(1,255,308)	(7,008,516)	0	(555,437)	0	(9,564,354)
Ending Balance (2013)	23,159,225	8,778,165	245,807	3,661	0	68,523,478	100,710,336
Receipts	2,767,371	263,745	5,296,689	4	614,695	12,459,278	21,401,783
Interfund Transfers	(1,105,835)	1,172,621	2,182,582	0	0	(2,249,367)	0
Disbursements	(463,013)	(1,442,325)	(7,391,343)	0	(614,695)	0	(9,911,377)
Ending Balance (2014)	\$24,357,748	\$8,772,206	\$333,735	\$3,665	\$0	\$78,733,388	\$112,200,742



# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,454,592	\$2,267,666	\$2,175,988
Transfers from Other Systems	257,086	133,028	52,213
Member Make Up Payments and Re-deposits	18,384	111,881	129,782
Investment Income Credited to Member Accounts	<u>37,309</u>	<u>29,491</u>	<u>40,574</u>
Sub Total	<u>2,767,371</u>	<u>2,542,067</u>	<u>2,398,556</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>263,745</u>	<u>255,638</u>	<u>248,181</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	162,789	164,240	199,427
Pension Fund Appropriation	102,889	101,003	51,500
Settlement of Workers' Compensation Claims	5,016,761	4,824,000	4,548,927
Recovery of 91A Overearnings	14,250	0	5,500
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,296,689</u>	<u>5,089,243</u>	<u>4,805,353</u>
<b>Military Service Fund:</b>			
Investment Income Credited to the Military Service Fund	<u>4</u>	<u>4</u>	<u>7</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>614,695</u>	<u>555,437</u>	<u>516,770</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	17,930	18,607	14,641
Interest Not Refunded	7,986	2,513	2,216
Miscellaneous Income	6	10	250
Excess Investment Income	<u>12,433,356</u>	<u>14,861,077</u>	<u>7,937,774</u>
Sub Total	<u>12,459,278</u>	<u>14,882,207</u>	<u>7,954,881</u>
<b>Total Receipts, Net</b>	<u>\$21,401,783</u>	<u>\$23,324,596</u>	<u>\$15,923,749</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$206,750	\$375,760	\$218,020
Transfers to Other Systems	<u>256,263</u>	<u>369,333</u>	<u>287,637</u>
Sub Total	<u>463,013</u>	<u>745,093</u>	<u>505,657</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,309,617	1,217,060	1,178,401
Option B Refunds	<u>132,708</u>	<u>38,248</u>	<u>0</u>
Sub Total	<u>1,442,325</u>	<u>1,255,308</u>	<u>1,178,401</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	5,625,908	5,268,182	4,947,594
Survivorship Payments	266,353	259,139	249,574
Ordinary Disability Payments	132,377	129,443	126,525
Accidental Disability Payments	941,017	950,796	913,202
Accidental Death Payments	150,078	157,228	155,278
Section 101 Benefits	39,264	35,600	26,612
3 (8) (c) Reimbursements to Other Systems	<u>236,346</u>	<u>208,127</u>	<u>190,100</u>
Sub Total	<u>7,391,343</u>	<u>7,008,516</u>	<u>6,608,884</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	15,000	15,000
Salaries	110,907	101,244	95,529
Legal Expenses	3,129	4,432	2,493
Medical Expenses	25	0	0
Travel Expenses	1,874	2,770	2,044
Administrative Expenses	25,670	29,744	28,660
Professional Services	0	725	0
Actuarial Services	9,700	0	8,525
Education and Training	1,507	2,320	2,339
Furniture and Equipment	844	1,485	140
Management Fees	332,128	300,118	276,101
Custodial Fees	86,601	71,592	60,898
Service Contracts	21,275	20,260	19,300
Fiduciary Insurance	<u>6,034</u>	<u>5,748</u>	<u>5,741</u>
Sub Total	<u>614,695</u>	<u>555,437</u>	<u>516,770</u>
<b>Total Disbursements</b>	<u>\$9,911,377</u>	<u>\$9,564,354</u>	<u>\$8,809,713</u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Investment Income Received From:</b>			
Cash	\$58	(\$70)	\$233
Fixed Income	1,283,645	1,194,141	1,166,623
Equities	900,929	890,237	1,112,150
Pooled or Mutual Funds	<u>48,873</u>	<u>34,544</u>	<u>24,950</u>
<b>Total Investment Income</b>	<u>2,233,505</u>	<u>2,118,852</u>	<u>2,303,957</u>
<b>Plus:</b>			
Realized Gains	4,969,292	2,511,140	1,408,054
Unrealized Gains	10,899,519	14,793,209	7,125,911
Interest Due and Accrued - Current Year	<u>184,662</u>	<u>199,655</u>	<u>217,486</u>
Sub Total	<u>16,053,473</u>	<u>17,504,005</u>	<u>8,751,451</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(258,506)	(192,139)	(143,416)
Realized Loss	(4,132,825)	(2,584,239)	(1,325,197)
Unrealized Loss	(346,883)	(927,345)	(625,691)
Interest Due and Accrued - Prior Year	<u>(199,655)</u>	<u>(217,486)</u>	<u>(217,798)</u>
Sub Total	<u>(4,937,869)</u>	<u>(3,921,209)</u>	<u>(2,312,101)</u>
<b>Net Investment Income</b>	<u>13,349,109</u>	<u>15,701,647</u>	<u>8,743,306</u>
<b>Income Required:</b>			
Annuity Savings Fund	37,309	29,491	40,574
Annuity Reserve Fund	263,745	255,638	248,181
Military Service Fund	4	4	7
Expense Fund	<u>614,695</u>	<u>555,437</u>	<u>516,770</u>
<b>Total Income Required</b>	<u>915,753</u>	<u>840,570</u>	<u>805,532</u>
Net Investment Income	<u>13,349,109</u>	<u>15,701,647</u>	<u>8,743,306</u>
Less: Total Income Required	<u>915,753</u>	<u>840,570</u>	<u>805,532</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$12,433,356</u>	<u>\$14,861,077</u>	<u>\$7,937,774</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$3,691,412	3.3%
Fixed Income Securities	28,795,518	25.8%
Equities	77,356,713	69.3%
Pooled Alternative Investment Funds	827,511	0.7%
Hedge Funds	<u>892,435</u>	<u>0.8%</u>
<b>Grand Total</b>	<b><u>\$111,563,589</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2014, the rate of return for the investments of the Northampton Retirement System was 12.91%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Northampton Retirement System averaged 11.57%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Northampton Retirement System was 9.77%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Northampton Retirement Board has not submitted any supplementary investment regulations.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Northampton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant/manager to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Northampton Retirement Board submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

**Membership:**

***September 26, 2013:***

With the exception of on-call fire and police employees, employees and elected officials of all member units of the Northampton Retirement Board who earn less than \$5,000 per year are ineligible for membership.

***March 30, 2006:***

This policy supersedes and replaces all previous membership policies of this board.

All permanent employees of the city working a minimum of 20 hours per week shall become members of the Northampton Retirement System.

All permanent school employees who work more than 20 hours per week and who are not eligible for membership in the Teachers Retirement System shall become members of the Northampton Retirement System.

Elected officials may join the system and have 90 days from the date of assuming office to elect to do so.

All on-call fire and police employees shall become members of the Retirement System, with creditable service to be determined at the time the employees become permanent employees.

Those employees who are temporary or intermittent and later become permanent shall join the Retirement System, and will have the option of buying back their previous temporary service.

Members of the System who drop below the minimum requirements for membership will remain members of the System and will continue to make contributions.

All members who work at least 20 hours per week will be considered full-time for purposes of calculating creditable service.

Those members who are working less than 20 hours per week, and those members buying back previous service of less than 20 hours per week, will have service calculated as a percentage of the 20-hour full-time rate, e.g. 10 hours will be considered halftime, and 5 hours will be considered one-fourth time.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

School employees who work the entire school year and return the following September will be granted a full-year of creditable service. Employees who leave at the end of the school year will be granted credit through their date of resignation.

**Creditable Service:**  
***September 25, 2014:***

No liability will be accepted for members of other Systems for any period in which the member was not eligible for membership in the Northampton Retirement System unless the service was purchased prior to the cessation of active membership with the Northampton Retirement System.

***March 30, 2006:***

This policy supersedes and replaces all previous creditable service policies of this board.

Active members may buyback service previous to membership and may buyback previous service that was refunded to them.

No liability will be accepted for employees of other Systems who were never active members of the Northampton Retirement System.

Prior service that was at least 20 hours per week will be considered full-time. Service less than 20 hours will be prorated as a percentage of the 20-hour minimum.

Military buybacks are calculated at an annualized 35-hour salary based on the rate listed on the membership form, and as verified by the deductions received. When no salary information is given, salary will be estimated using the first full 12 months of deductions.

Where information is sufficient to prove that the employee was employed by Northampton, every effort will be made to make an accurate estimate of the creditable service and of the salaries earned. The Retirement Board is the final arbiter of service granted in cases where full employment records are not available.

All buybacks must be completed prior to retirement and no creditable service will be granted until the buyback is complete.

Once a buyback is begun, it must be completed within 3 years. For buybacks greater than \$4,000, members can take up to 4 years to complete it. Payback schedules longer than 4 years require board approval.

**Regular Compensation:**  
***December 20, 1984:***

Retirement deductions are to be taken only on the funds paid to [members on National Guard duty] on the funds paid to them by the federal government. (National Guardsmen receive from the City for their summer tours, the difference between pay from the city and what the federal



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

government allows. They do not lose any time in creditable service for the weeks they must spend with the Guard).

It is the policy of the system that any members who have another salaried position within the city must have deductions withheld from both salaries for retirement purposes. This does not apply to persons employed intermittently by the recreation department or persons paid as election workers. It applies to employees such as the Planning Department secretary who is also secretary to the Planning Board and is paid an additional bi-yearly sum for attending monthly evening meetings and taking minutes.

#### **Miscellaneous:**

***March 30, 2006:***

#### **Elections:**

This policy supersedes and replaces all previous election policies of this board.

Elections will be held as a one-day walk-in event, with the retirement office as the polling station. The office will be open 7:00 a.m. to 6:00 p.m. on that day.

Candidates will be listed on the ballot in the order determined by a random drawing, conducted by the election officer.

Candidates will not be given a mailing list of members. Candidates may provide material in postage-paid envelopes for mailing to retirees and/or active members.

Retirees will be provided with mail-in ballots. Active members can request an absentee ballot.

Mailed-in ballots must contain a name and return address on the outside. Ballots with no return address will not be counted. Ballots can be enclosed in a sealed inner envelope if the voter wishes to do so. Ballots will be checked off the eligible voter list as they are received, separated from the outer envelope, and set aside for counting.

Walk-in voters must show identification, and will be checked off the eligible voter list.

Once the polls are closed, the election officer and that officer's designees will count the ballots and post the election returns. The results will be posted in all departments, and will be included in the next retirement check mailing.

#### **Retirement Payroll:**

Retirement checks are mailed on the next-to-last business day of the month and are dated the last business day of the month.

With each change in board membership or staff, a notice will be sent to the treasurer including the eligible signatures for signing warrants, and stating that the treasurer is authorized to release funds

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

upon receipt of a warrant signed by any two of the board members listed, or alternatively signed by the retirement administrator and any one of the board members listed.

When the monthly board meeting falls after the date of the warrants to pay direct deposits and to mail retirement checks, the retirement administrator is authorized to sign the payroll warrant. When the board meeting schedule may lead to late fees or other problems, the retirement administrator is authorized to sign an accounts payable warrant. Any such warrant must be signed by one board member. Any such warrant so signed will be presented at the next meeting for board approval.

Retirement checks which are lost in the mail will be replaced after 5 days, provided the retiree agrees to return the original check if received. If the retiree should later cash the original check, the overpayment will be deducted from his/her next retirement check, and all future requests for replacement checks will require stop payment of the original check and a waiting period for the treasurer to assure the check has not been cashed before a replacement check can be issued, and the retiree will be charged a stop-payment fee equal to the rate charged by the Board's bank

#### **New Retirements:**

New retirees will be paid beginning the work-day following their last paid day of employment or on their requested date of retirement, whichever comes last. Partial months of retirement will be prorated based on a 30-day month (e.g. if a person retires on the 15th of the month and is paid for the 15th, their retirement pay will start on the 16th and will be equal to one-half month's pay).

#### **Accounts Payable:**

When the board meeting schedule leads to late-payment fees or other problems, bills may be paid prior to the warrant and marked as pre-released on the warrant. Currently, this policy would apply only to the bottled water bill, the newspaper subscription, and to hotel reservations.

#### **Payroll Certification:**

Retirees and survivors are not required to have their signatures notarized. Those signing the payroll certification form under power of attorney will be required to have the form notarized.

#### **Public Records:**

Financial records, actual account amounts and medical records of members and former members are not public records.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

**Ex-officio Member:** Joyce E. Karpinski, Chairperson

Appointed Member: Susan L. Wright                      Term Expires: Indefinite

Elected Member: Michael J. Lyons Term Expires: 06/30/17

Elected Member: Shirley A. LaRose Term Expires: 06/30/19

Appointed Member: Thomas F. Sullivan                      Term Expires: 02/05/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2014.

The actuarial liability for active members was	\$63,414,242
The actuarial liability for inactive members was	1,436,207
The actuarial liability for retired members was	<u>84,170,369</u>
The total actuarial liability was	\$149,020,818
System assets as of that date were (actuarial value)	<u>93,943,208</u>
The unfunded actuarial liability was	<u>\$55,077,610</u>
 The ratio of system's assets to total actuarial liability was	 63.0%
As of that date the total covered employee payroll was	\$24,064,230

The normal cost for employees on that date was 8.8% of payroll

The normal cost for the employer was 4.5% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Varies by calendar year and service

#### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2014 (Amounts in 000's)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2014	\$93,943	\$149,021	\$55,078	63.0%	\$24,064	228.9%
1/1/2012	\$79,531	\$131,388	\$51,857	60.5%	\$23,889	217.1%
1/1/2010	\$76,045	\$116,637	\$40,592	65.2%	\$22,556	180.0%

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Retirement in Past Years</b>										
Superannuation	9	2	14	15	16	18	17	17	27	15
Ordinary Disability	0	0	0	0	0	1	1	1	0	1
Accidental Disability	0	0	2	1	0	1	0	0	0	1
<b>Total Retirements</b>	<b>9</b>	<b>2</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>20</b>	<b>18</b>	<b>18</b>	<b>27</b>	<b>17</b>
Total Retirees, Beneficiaries and Survivors	325	331	333	338	343	353	364	375	396	388
Total Active Members	646	674	687	683	637	649	664	665	653	641
<b>Pension Payments</b>										
Superannuation	\$3,160,853	\$3,449,738	\$3,560,615	\$3,743,110	\$4,005,185	\$4,365,161	\$4,580,758	\$4,947,594	\$5,268,182	\$5,625,908
Survivor/Beneficiary Payments	248,864	251,952	261,501	254,287	260,479	256,333	247,432	249,574	259,139	266,353
Ordinary Disability	94,900	105,703	97,503	90,264	79,987	80,450	109,535	126,525	129,443	132,377
Accidental Disability	730,495	778,201	804,170	842,716	856,819	858,598	867,136	913,202	950,796	941,017
Other	288,559	321,189	331,128	316,894	353,945	359,505	395,489	371,989	400,955	425,689
<b>Total Payments for Year</b>	<b>\$4,523,671</b>	<b>\$4,906,783</b>	<b>\$5,054,917</b>	<b>\$5,247,271</b>	<b>\$5,556,415</b>	<b>\$5,920,047</b>	<b>\$6,200,351</b>	<b>\$6,608,884</b>	<b>\$7,008,516</b>	<b>\$7,391,343</b>





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